

Message Text

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ACTION EUR-12

INFO OCT-01 ARA-06 ISO-00 AF-06 OPIC-03 SAM-01 CIAE-00

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INFO AMEMBASSY BONN

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AMEMBASSY BRUSSELS

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TAGS: EFIN, PINT, PO

SUBJ: GOP OUSTS LEFTISTS FROM CENTRAL BANK LEADERSHIP

REF: LISBON 6006 (NOTAL)

SUMMARY: COUNCIL OF MINISTERS, AT REQUEST OF FINANCE MINISTER
SALGADO ZENHA, HAS APPROVED OUSTER OF LEFTISTS FROM LEADERSHIP
OF BANK OF PORTUGAL (BOP). TWO MODERATE TECHNOCRATS WITH WIDE
EXPERIENCE AND REPUTABLE IMAGE APPOINTED TO FILL TOP SLOTS
VACANT FOR SOME TIME. REPLACEMENT OF THREE LEFTIST
ADMINISTRATORS HAS EVOKED STRONG DENUNICATIONS FROM PCP-CONTROLLED
MECHANISMS. RESHUFFLE ACCOMPANIED BY APPROVAL OF NEW BOP STATUTES
FITTING ITS GREATLY EXPANDED ROLE AS COUNTRY'S MONETARY AND CREDIT
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COORDINATOR. MOVE TO CONTROL VITAL ECONOMIC CENTER IS MAJOR STEP

TOWARD REALISTIC AND EFFECTIVE ECONOMIC/FINANCIAL POLICY. END
SUMMARY.

1. COUNCIL OF MINISTERS ANNOUNCED OCTOBER 10 A RESHUFFLE OF TOP STAFF AT BANK OF PORTUGAL (BOP). THIS MOVE IN EFFECT, PUT MODERATE TECHNOCRATS IN CHARGE AND REMOVED LEFTISTS ALIGNED WITH GONCALVES GOVERNMENT. MINISTERS ALSO ANNOUNCED APPROVAL OF NEW STATUTES FOR BOP BEFITTING ITS GREATLY EXPANDED ROLE AS PORTUGAL'S MONETARY AND CREDIT COORDINATOR.

2. AFTER RESHUFFLE, BOP TOP MANAGEMENT IS:
A. GOVERNOR-DR. JOSE SILVA LOPES (NEW)
B. VICE-GOVERNORS-DR. EMILIO RUI VILAR (NEW)
DR. ANTONIO SEIXAS COSTA LEAL
C. ADMINISTRATORS-DR. JOAQUIM MESTRE;
DR. WALTER PEGO MARQUES;
DR. ANTONIO LOUREIRO BORGES;
DR. ALBERTO JOSE DOS SANTOS RAMALHEIRA.

3. THESE CHANGES CONSTITUTE FOURTH MAJOR RESHUFFLE OF BOP TO MANAGEMENT SINCE APRIL 25 REVOLUTION. SHORTLY AFTER REVOLUTION, LONG-TIME BOP VICE-GOVERNOR AND RESPECTED TECHNOCRAT JACINTO NUNES WAS PROMOTED TO GOVERNOR. JOAO SALGUEIRO, WIDELY RESPECTED ECONOMIST AND POLITICAL MODERATE, OCCUPIED ONE VICE-GOVERNOR SLOT WHILE OTHER REMAINED VACANT.

4. SHORTLY BEFORE MARCH 11, 1975, ABORTED COUP, VASCO GONCALVES ADVISOR MARIO MURTEIRA WAS NAMED TO FILL VACANT FICE-GOVERNOR SLOT, BUT ON MARCH 26 WAS APPOINTED PLANNING AND ECONOMIC COORDINATION MINISTER. ALTHOUGH JACINTO NUNES REMAINED AS GOVERNOR, HE BECAME LITTLE MORE THAN A FIGUREHEAD. JOAO SALGUEIRO WAS OUSTED, LEAVING BOTH VICE-GOVERNOR SLOTS VACANT. FIVE ADMINISTRATORS (FOUR APPOINTED BY MURTEIRA AND ONE HOLD-OVER) RETAINED EFFECTIVE CONTROL OF BOP.

5. FACED BY THIS SITUATION, JACINTO NUNES REPEATEDLY BUT DIS-
CREETLY ATTEMPTED TO RESIGN. GOP IGNORED THESE ATTEMPTS TO AVOID
NEGATIVE REPERCUSSIONS HIS RESIGNATION WOULD HAVE ON INTERNATION-
AL FINANCIAL COMMUNITY. IN JUNE, GOP APPOINTED SECRETARY OF STATE
FOR BUDGET ANTONIO COSTA LEAL AS VICE-GIVERNOR AND, IN EFFECT,
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ACTING GOVERNOR. JACINTO NUNES QUIETLY FADED OUT. HIS RESIG-
NATION AND LEAL'S ASSUMPTION WERE NEVER OFFICIALLY CONFIRMED.
NUNES WAS ASKED TO REASSUME HIS POSITION UNDER SIXTH GOVERNMENT,
BUT PREFERS TO SERVE AS AN ADVISOR.

6. NEW GOVERNOR SILVA LOPES, A RESPECTED MODERATE TECHNOCRAT,
SERVED AS SECRETARY OF STATE FOR FINANCES IN FIRST PROVISIONAL
GOVERNMENT, FINANCE MINISTER IN SECOND AND THIRD, AND FOREIGN

TRADE MINISTER IN FOURTH. RUI VILAR, ANOTHER TECHNOCRAT, WAS SECRETARY FOR FOREIGN TRADE AND TOURISM IN FIRST GOVERNMENT, AND ECONOMICS MINISTER IN SECOND AND THIRD. COSTA LEAL BEGAN AS GOVERNMENT STATISTICIAN, MOVED TO LISNAVE AND CUF, AND THEN SERVED AS SUBSECRETARY AND SECRETARY FOR BUDGET DURING FIRST THROUGH FOURTH REVOLUTIONARY GOVERNMENTS. APPARENTLY HE WIELDED LITTLE REAL POWER AT BOP DURING LAST GONCALVES GOVERNMENTS. FOUR REMAINING ADMINISTRATORS INCLUDE TWO HOLDOVERS--MESTRE AND MARQUES. SECRETARY OF STATE FOR TREASURY TOLD EMBOFFS THAT THEY ARE COMPETENT TECHNOCRATS.

7. THREE LEFTIST ADMINISTRATORS WHO WERE REMOVED ALL RETURN TO POSITIONS THEY HELD IN OTHER GOVERNMENT BANKS BEFORE JOINING BOP. ONE OF THEM, DR. JOSE ANTONIO DE FREITAS MARINGUESA, WAS AMONG ORIGINAL MURTEIRA APPOINTEES. ANOTHER, DR. MARIO BRANDAO FERREIRA, SERVED AS SECRETARY OF STATE FOR TREASURY UNDER FOURTH AND FIFTH GOVERNMENTS. WHILE IN THAT POSITION, HE MADE POOR IMPRESSION IN INTERNATIONAL FINANCIAL CIRCLES.

8. GOP ACTION HAS EVOKED BATTLE OF COMMUNIQUE. INTERSINDICAL AND VARIOUS WORKERS' GROUPS ANNOUNCED MOVE AS A RIGHTIST "PURGE" OF REVOLUTIONARIES. PLENARY OF BOP EMPLOYEES, HOWEVER, GAVE ITS GRUDGING APPROVAL. FINANCE MINISTER ISSUED COMMUNIQUE OCTOBER 10 EXPLAINING THAT, AFTER SIXTH GOVERNMENT HAD BEEN FORMED, A SPECIAL WORKING GROUP DISCOVERED "IMPROVIDENT MANAGEMENT" OF EXTERNAL FINANCIAL TRANSACTIONS. (SECRETARY OF STATE FOR TREASURY TOLD EMBOFFS THAT GROUP WAS COMPOSED OF JACINTO NUNES, SILVA LOPES, RUI VILAR, COSTA LEAL, AND FORMER GOP ECONOMIC COORDINATION MINISTER AND ANGOLAN ECONOMICS MINISTER VASCO VIEIRA DE ALMEIDA.) COMMUNIQUE NOTED THAT OUSTED ADMINISTRATORS WERE NOT "PURGED," BUT WERE RETURNING TO THEIR FORMER POSITIONS. IT EMPHASIZED ALSO THAT GOVERNMENT MUST HAVE CONFIDENCE IN BOP MANAGEMENT.

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9. PRESS HAD REPORTED EARLIER THAT BOP ADMINISTRATOR ANTONIO AUGUSTO DE ALMEIDA HAD ALISGNEED HIMSELF WITH THREE OUSTED ADMINISTRATORS BY SUBMITTING HIS RESIGNATION. FINANCE MINISTRY COMMUNIQUE CLAIMED THAT HE RESIGNED BECAUSE HE INTENDS TO OPT FOR ANGOLAN CITIZENSHIP AND, THEREFORE, COULD NOT RETAIN HIS BOP POSITION.

10. COMMENT: A. PORTUGAL'S CENTRAL BANK, ESPECIALLY SINCE NATIONALIZATION OF BANKING SECTOR, PLAYS POWERFUL ROLE IN CONTROLLING COUNTRY'S ECONOMY. THUS, REMOVAL OF LEFTISTS WAS VITAL TO IMPLEMENTATION OF MORE REALISTIC ECONOMIC AND FINANCIAL POLICY. STRONG COUNTERATTACKS BY COMMUNIST PARTY (PCP)-DOMINATED MECHANISMS SHOW REALIZATION OF BANK'S IMPORTANT POSITION. B. SUCCESSFUL REPLACEMENT OF IDEOLOGUES WITH PRAGMATIC TECHNOCRATS REPRESENTS MAJOR STEP TOWARDS INTRODUCTION OF

MEANINGFUL AUSTERITY PROGRAM. IMPLEMENTATION OF SUCH A POLICY
WILL, HOWEVER, REQUIRE STRONG POLITICAL BACKING.
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